

**SENATE REVENUE COMMITTEE**  
**APRIL 20, 2005 9:00 AM STATE CAPITOL BUILDING**

Members Present: Senator Ryan Deckert, Chair  
Senator Gary George  
Senator Rick Metsger  
Senator Floyd Prozanski  
Senator Charles Starr, Vice Chair

Witnesses Present: Kenneth Yates, Northwest Food Processors Association  
Josh Reynolds, Gray & Company  
King Bredenkamp, Scenic Fruit Co., Gresham  
Jerry Gardner, Oregon Dept. of Agriculture  
Joe Schweinhart, Associated Oregon Industries  
Don Schellenberg, Oregon Farm Bureau  
Ralph Groener, AFSCME

Staff Present: Paul Warner, Legislative Revenue Officer  
Barbara Guardino, Committee Assistant

**TAPE 100, SIDE A**

005 Vice Chair C. Starr Calls meeting to order at 9:10 a.m.

**PUBLIC HEARING, SB 479 and SB 365**

012	Paul Warner	Explains S9 479. Expands an existing credit for property used in food processing ( <b>EXHIBIT 1</b> ). Credit is limited to on-farm processing. The current revenue impact is \$400,000 per biennium. This bill expands its reach greatly to include all food processing activity in the state. There is no revenue impact statement. In both bills, a combined \$2 million was collected in corporate tax payments, a relatively small tax liability.
031	Warner	Explains SB 365 ( <b>EXHIBITS 2, 3</b> ), a personal and corporate tax credit for payroll costs for seasonal labor costs. This bill has a potentially large revenue impact, but over last 12 months payments have been \$2 million, which effectively caps the revenue impact.
041	Vice Chair C. Starr	Asks if there is a carry-forward component to SB 365.
048	Warner	Yes, Section 2 (5) contains a five-year carry-forward.
055	Kenneth Yates	Gives overview of Oregon's food manufacturing industry. (Comments are general toward both bills.) See informational packet ( <b>EXHIBIT 4</b> ). It is the third largest manufacturing employer in Oregon, one of three economic legs: high tech, wood products and food manufacturing. This leg is troubled and it needs some tightening.
079	Yates	Draws members' attention to benchmarks on yellow sheet in packet: Economic Trends in the Northwest Food Processing Industry. Page 2: Benchmarks for Food & Beverage Processing Page 3: Economic Contributions by Food Processing Companies

114	Yates	Draws members' attention to green sheet, page 1, Oregon Food Processing WARN Act Notices. This document lists firms that have laid off workers and have closed. "We need to reverse this trend."
131	Yates	Discusses white document in packet: The Economic Impacts of Food Plant Closure: Analysis of the J.R. Simplot Company Plant in Hermiston, Oregon. Directs members' attention to the executive summary on page 3. Hermiston will lose 680 jobs with a total payroll of \$15.4 million. Expects it will be picked up but with a much lower level of economic activity.
164	Yates	The legislation before the committee is very narrowly targeted toward the most distressed sector – fruits and vegetables. These two bills are part of a larger state/regional cluster development strategy. They bring investments in and development. They are necessary for the food industry to compete globally. Oregon's competitors are no longer down the street, they are overseas. We need to preserve historic competitive advantages (water and energy) and find new ones. Pacific Northwest states and the federal government are putting together a strategy to lay a roadmap over the next 10-20 years for what needs to be done. These bills are the first step.
206	Yates	Asks lawmakers for cost relief.
216	Vice Chair C. Starr	Thanks Mr. Yates for his testimony. Comments on the seriousness of what has happened to Oregon's agriculture industry, in which he is involved.
222	Sen. George	Is also involved in this industry. Comments, it isn't just worldwide competition; it's also issues of piling on costs. Gives an example of a company wanting to change location, but the buildings no longer met current code requirements.
258	Yates	Gives an example of a commodity processor that switched location. It is now entirely an export business to Japan. The competition is international and national. The food processing industry is not asking for relaxation of environmental regulations, it is asking for cost relief and a partnership with the state in order to survive and prosper.
306	Chair Deckert	Asks where food industry stands in relation to the governor.
303	Yates	Responds, the Dept. of Agriculture is very supportive of the industry, and has established a partnership with Gov. Kulongoski which has already borne some fruit. "We are committed to working with this administration." This issue is nonpartisan. Amendments are being drafted.
328	Chair Deckert	Requests the amendments soon since the committee is beginning to wrap up its work.
331	Sen. Prozanski	Expresses concern that the recipients of this legislation should show a commitment to stay in Oregon. Asks Yates if there are any callback provisions for a firm to stay in place once it gets the tax credit. Uses example of Foster Farms which left Creswell. Firms that leave should

be required to pay back what they were given. Asks Yates' position on this issue.

- 358 Yates We are not asking relief for the poultry industry. These bills are focused on the produce, bakery and fishing industries. Plant closures will often occur after a company makes significant investments. There is a strong commitment to grow this industry. Would not bind the hands of the industry about getting money back, but could require disclosure. Could not commit that a plant wouldn't close. That is often beyond a company's control. The idea is to get the investments in place so the industry can compete.
- 412 Yates Notes, there is a sunset provision in the bill that limits any downside. Would like to discuss disclosure reporting.
- 424 Sen. Prozanski This is not the answer he cared to hear. This industry is probably the most worthy for this type of investment without the callback, but when companies make the decision to leave, there should be some buy-in. Other states have done this. A partnership goes two ways.
- 447 Yates Is representing companies that are making investments in order to stay. This industry is providing opportunities to high school students and immigrants and is the biggest contributor to the Oregon Food Bank. Entry-level employees earn \$10-\$12 per hour. There will be a reduction in employment in this industry, but the jobs that remain will be higher paid and higher skilled. That is a commitment to the industry. This is the first time this industry has asked for this type of help. Would like to hear about what other states are doing.

**TAPE 101, SIDE A**

- 040 Yates Would like to have a continued dialogue with Sen. Prozanski on this issue.
- 048 Sen. George He is seeing manufacturers and suppliers disappear because these firms have moved. Asks Yates to respond.
- 067 Yates Agrees with Sen. George's comments about related industries closing down. This is a regional economic cluster. The Food Processing Association represents suppliers as well as growers. If the core industry goes away, so do their suppliers. Without the processing and value added component, there is severe damage. "We have got to preserve this economic cluster through investments, or it's going to be in China." Continues, "If this country believes our foreign dependence on energy is a natural security issue – and it is – wait until we are a net importer of food. And that is coming in 20-30 years." Asks for quick action.
- 094 Josh Reynolds Gray & Company is a \$75 million maraschino cherry processing firm owned by his family. It has two Oregon plants, one in Dayton and one in Forest Grove. Total payroll here is \$6 million; production is \$25 million. Last five years the company has been debating where to relocate within the United States. Gray has another processing facility in Michigan, and that has been the company's engine of growth. Oregon is at a disadvantage from the rest of the U.S. Minimum wage is higher here. Also, moving goods costs more, and ingredients such

as corn syrup cost more.

171	Reynolds	Concludes, his family loves Oregon and wants to stay here rather than move to Michigan. Emphasizes his desire to build the business here. Michigan shows interest in keeping firms; asks Oregon to do the same.
201	King Bredenkamp	Scenic Fruit Co.'s grandfather founded the company in Gresham in 1931. Gives overview of the company, with gross sales of \$12-15 million. Buys supplies from other Oregon businesses. Discusses the difficulty in competing with global markets with their cheap labor. Gives examples of losing out on business opportunities because his labor costs are too high. "We need to have a leveler playing field in order to generate business." 2004 was one of the worst years in the company's 74-year history. These two bills would definitely help.
261	Bredenkamp	The good news is, the market for berries is increasing. In June 2005 Oregon State University will host a worldwide berry symposium touting the health significance of berries. Asks the committee to pass SB 365 and SB 479 to level the playing field.
277	Vice Chair C. Starr	Thanks panel for their compelling testimony.
288	Chair Deckert	Comments on the need to work with the governor's office quickly to get these bills into shape in order to move them.
309	Sen. Metsger	Asks Bredenkamp about his practice of processing strawberries imported from Poland.
317	Bredenkamp	Responds, it is cheaper to bring berries in from Poland than from across the street.
325	Sen. Metsger	This shows how the global market is hurting us internally.
335	Jerry Gardner	ODA is not taking a position on these bills, but he wants to describe the importance of agriculture and food processing to the state's economy. Directs members' attention to paper version of a slide show ( <b>EXHIBIT 5</b> ): Oregon Agriculture...Not Just A Pretty Picture or the "Other" Traded Sector
363	Gardner	Slide 2: Oregon Production Agriculture, \$3.8 billion value of production 2004. Estimates total direct contribution to Oregon's economy by agriculture and food processing is about \$11.5 billion.
370	Gardner	Slide 3: Oregon's Top 10 Agricultural Counties Slide 4: Oregon Agriculture as an Economic Engine Slide 5: Employment Slide 6: Agriculture is One of Oregon's Most Important Exports
394		Slide 7: Ag Exports – Part II Slide 8: Value Added Slide 9: Food Processing – Part 1 Slide 10: Food Processing – Part 2
421	Gardner	Slide 11: Oregon Ag as a Traded Sector

Slide 12: Ag as a Traded Sector – Part 2  
Slide 13: Challenges to the Bottom Line  
Slide 14: Oregon's Agriculture Strengths

445 Gardner

Slide 15: Can Oregon Agriculture Compete?

**TAPE 100, SIDE B**

039 Joe Schweinhart

See written testimony, verbatim (**EXHIBIT 6**) in support of SB 365 and SB 479. This tax credit is an investment in the state's economy. For every dollar spent in manufacturing, \$6 are spent in supporting industries. Losing this sector would have a major economic impact.

058 Don Schellenberg

Asks for support of the bills on behalf of the Oregon Farm Bureau. Concurs with Yates that this is a partnership. Agriculture can't exist without processors, and they can't exist without us. The Farm Bureau has a similar bill in the House. "We need all the help we can get."

084 Ralph Groener

Testifies against SB 365. Tells of his agriculture background in and around Multnomah County. In his childhood he and his friends were able to pick fruits and vegetables. He protested federal legislation to prohibit children under age 13 from working in the fields. This change greatly impacted Oregon's labor costs. Today's migrant labor is counter to what Congress meant. In Oregon the pickers were the children of working Oregonians. Clackamas County where he worked specialized in berries, etc. Now it's mainly nursery stock.

140 Groener

Has fought for agriculture much of his life, and will continue to do so. But he questions tax credits for salaries and benefits. Would prefer those credits go toward high tech equipment. Doubts taxpayers can subsidize any industry and whether taxpayers would agree to pay for salaries and benefits in order to keep those industries. That money could go toward schools or police.

187 Groener

Has argued 15-20 years for a one-page sheet to use when companies come asking for a tax break. It documents the number of employees hired for every dollar contributed. He points to an example form issued by OHSU.

215 Vice Chair C. Starr

Closes public hearing; adjourns meeting at 10:20 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

**Exhibit Summary:**

1. SB 479, Staff Measure Summary, 4/13/05, Warner, 1 pp.
2. SB 365, Staff Measure Summary, 4/13/05, Warner, 1 pp.
3. SB 365, Revenue Impact of Proposed Legislation, 4/14/05, Warner, 1 pp.
4. SB479 and SB 365, information packet from Oregon Food Processors Council, 3/17/05, Yates, 47 pp.
5. SB 479, Oregon Agriculture...Not Just a Pretty Picture, Gardner, 16 pp.

6. SB 479, AOI, testimony of Joseph Schweinhart, 4/20/05, 1 pp.
7. SB 479, memo from Lindsay, Hart, Neil & Weigler, LLP, 4/19/05, Cosgrove, 1 pp.